

AR 35

File

PONDER '68



FRONT COVER

Taken during hydro-fracturing procedure
on a Discovery Inc., oil well, Playa
Field, Martin County, Texas.

Annual Report to the Shareholders

PONDER OILS LTD.

Incorporated under the Laws of the Province of Alberta
(Listed on Toronto and Calgary Stock Exchanges)

HEAD OFFICE — 806 LANCASTER BUILDING
CALGARY 2, ALBERTA

DIRECTORS AND OFFICERS

W. L. Falconer, Calgary, Alberta — President and Managing Director

Geo. R. Gibson, Midland, Texas — Vice-President and Director

D. A. McFee, Winnipeg, Manitoba — Treasurer and Director

F. J. Heagle, Calgary, Alberta — Director

F. Leroy Hill, Rockford, Illinois — Director

D. L. Sinclair, Toronto, Ontario — Director

H. F. Gain, Calgary, Alberta — Secretary

REGISTRAR

MONTREAL TRUST COMPANY
Calgary, Alberta — Toronto, Ontario

TRANSFER AGENT

MONTREAL TRUST COMPANY
Calgary, Alberta — Toronto, Ontario

AUDITORS

PRICE WATERHOUSE & CO.
Chartered Accountants
Calgary, Alberta

DIRECTORS' REPORT

To The Shareholders:

Your Directors present herewith a Consolidated Balance Sheet, Statement of Income and Retained Earnings, Statement of Source and Application of Funds for Ponder Oils Ltd. and its wholly-owned subsidiaries — Universal Printers Ltd. and Discovery Inc., — for the year ended December 31, 1968. The net income from operations after providing for taxes amounted to \$106,187 or four cents per share, as compared to seven and four tenth cents per share in 1967. This decrease in earnings was due to heavy drilling write offs and a greatly expanded development program in the oil segment of the Company's activity. Further, Universal Printers Ltd. experienced a 12% decrease in net profit.

Dividends of one and one-half cents per share on the Common stock of the Company were paid to shareholders June 15 and December 14, 1968 — a total of three cents per share for the year. The Board of Directors expects to continue the Company's dividend policy.

During the year the Company continued its diamond drilling program in British Columbia, participated in the drilling of ten wells in Alberta, and twenty-six development wells in Texas. The results of these activities are noted elsewhere in this report.

Changes on the Board of Directors saw Mr. D. L. Sinclair replace Mr. E. R. Alexander, Jr., of Toronto. Mrs. L. S. Walsh, of New York, resigned as a director after serving in that capacity for twelve years. Mr. D. A. McFee, Treasurer of the Company, was elected a director. At the same time, he was appointed Executive Vice-President of Universal Printers Ltd.

It is a pleasure for the Directors to record their sincere thanks and appreciation for the loyalty and co-operation of our employees during 1968.

You are urged to attend the shareholders' meeting on April 25, 1969, but if unable to do so, please sign and return the enclosed proxy.

For the Board of Directors,
W. L. Falconer,
President

Calgary, Alberta.
April 1, 1969.

PONDER OILS LTD.

ALBERTA

In Southern Alberta the Company participated in the drilling of three wells near the Town of Coutts on the Alberta-Montana border. One has been completed as a gas well, one is currently testing as a small oil well, and the third was abandoned. Follow up drilling is anticipated in the near future.

In the Red Earth area of Northern Alberta, the Company earned a 10% working interest in the south ½ of Township 89, Range 22 west of the 5th Meridian (11,520 acres) by drilling a test well, that has been plugged. Our geophysical work is now under re-examination preliminary to determining a future program for this ground.

A six-well program was undertaken on a farm-out in the Baxter Lake Field, Wainwright, Alberta. It has resulted in 2 wells and 4 dry holes. The Company did not spend the contracted sums, and since the drilling program defined the reserves as too small to warrant the required additional expenditures to earn an interest, the project was abandoned and the field returned to the farmor. Despite this experience, however, the Company is still interested in the heavy oil areas of Alberta and Saskatchewan, and is expending considerable effort to obtain an interest.

BRITISH COLUMBIA

In the Illiance River Valley, Skeena Mining Division, fifteen miles from Alice Arm, British Columbia, the Company has four mineral claims and an option to purchase 36 adjacent mineral claims. During the summer and early fall of 1968, the Company did 3,200 feet of diamond drilling in 31 holes; the shortest was 52 feet and the longest 143 feet. Five localities were tested along a mineralized and altered zone in andesitic rocks which measured 300 to 400 feet wide, more

TEXAS

The Company has continued its energetic development of the Playa Field, Martin County, Texas. One drilling rig has been working continuously throughout the year and has been able to complete a well every three weeks. In December, a second rig was engaged and the two rigs have worked steadily since that date. The Company's program has consisted of:

1967	2 wells completed	320 acres developed
1968	23 wells completed	3,680 acres developed
1969	9 wells completed	1,280 acres developed

MANITOBA

Despite the fact that the 1968 sales volume of Universal Printers Ltd. was very similar to that of the previous year, profits showed a significant decrease. Ever-rising production costs, and a more competitive market were the chief reasons.

In an effort to improve service, product and profits, the Company is considering the installation of more sophisticated equipment.

than 7,000 feet long, and extends from elevation 2,500 feet to 4,500 feet.

In 1968 work results were encouraging in so far as a few hundred tons of high-grade silver ore were indicated and a considerable tonnage of sub-marginal ore can be postulated. Light weight equipment was used, so that testing to depth was not possible. Notwithstanding, the 1968 work re-confirmed the 1967 assessment of the property. Work requirements have been recorded thru 1972 on all the mineral claims. Further exploration will await improved communications in the area.

SASKATCHEWAN

In 1968 the Company acquired an eighth working interest in one section of land in the Midale Field on which there is one producing well. The advisability of further developing this property is under study.

The Company has purchased a 5% interest in exploration permits covering 300 mineral claims in the Beaverlodge area, Lake Athabaska, Saskatchewan. The property lies between the major producers of Eldorado and Gunnar, adjoining the latter. The program on this ground has not yet been finalized.

ONTARIO

The Company has joined the C. C. Huston (1969) Limited Partnership to explore for minerals in Canada. Parties working in Northern Ontario have already begun staking, and in addition, a prospecting party has commenced operations in Alberta. Areas in other parts of Canada are due for attention. The Company's interest is 18.6% and an estimated budget has been set in excess of \$250,000 for each of the next three years.

DISCOVERY INC.

Still undeveloped 8,160 acres of which there are 18 offset locations.

The Company's interest is variously 1/6th and 1/8th and current plans call for 25 wells to be completed in 1969 with a further 26 wells in the following year. The Company's share of this expenditure is expected to exceed \$300,000 in 1969.

UNIVERSAL PRINTERS LTD.

The printing of retail and wholesale advertising circulars, comprising a very important part of the Company's schedule, is one of continually changing patterns. Universal's planned flexibility has provided the machinery for customers' changing needs. The book plant continues to keep the Company number one in the paperback book industry in Canada.

PONDER

AND WHOLLY-OWNED

Consolidated Balance Sheet

(with comparative figures for 1967)

ASSETS		1968	1967
CURRENT ASSETS:			
Cash		\$ 8,585	\$ 3,347
Accounts receivable—			
Trade		507,085	322,312
Employees		18,766	2,025
Other (Note 2) .....		.....	84,605
Inventories—			
Pipe tubing and other supplies, at cost		25,868	.....
Finished goods, at selling price		125	12,644
Work in process, at estimated cost		21,837	29,990
Paper, ink and supplies, at the lower of cost or net realizable value		139,127	119,917
Prepaid expenses and deposits		<u>10,570</u>	<u>16,527</u>
		731,963	591,367
SPECIAL REFUNDABLE TAX		2,459	4,947
DEPOSITS		5,550	.....
PROPERTY, PLANT AND EQUIPMENT, at cost:			
Land		36,999	36,999
Leases, well costs and equipment		527,621	238,559
Buildings		216,755	216,755
Machinery and equipment		1,237,772	1,190,605
Type and metal		54,016	54,016
Office furniture and fixtures		<u>42,962</u>	<u>40,747</u>
		2,116,125	1,777,681
Less—Accumulated depreciation and depletion		<u>1,162,878</u>	<u>1,027,805</u>
		953,247	749,876
OTHER ASSETS:			
Rent paid in advance (Note 3)		12,996	20,424
Unamortized leasehold improvements		6,340	8,646
Organization costs		5,237	5,237
Mining exploration in progress (Note 4)		<u>94,839</u>	<u>59,410</u>
		119,412	93,717
EXCESS OF PURCHASE PRICE OVER BOOK VALUE OF SUBSIDIARY		<u>849,981</u>	<u>849,981</u>
		<u><u>\$2,662,612</u></u>	<u><u>\$2,289,888</u></u>

AUDITORS' REPORT

To the Shareholders of Ponder Oils Ltd.

We have examined the consolidated balance sheet of Ponder Oils Ltd. and its subsidiaries as at December 31, 1968, and the consolidated statements of income and retained earnings and source and application of funds for the year then ended. Our examination included a general review of the accounting procedures and such tests of accounting records and other supporting evidence as we considered necessary in the circumstances.

OILS LTD.

ED SUBSIDIARIES

at — December 31, 1968

figures for 1967)

LIABILITIES			1968	1967
CURRENT LIABILITIES:				
Cheques issued in excess of bank balance	\$	56,368	\$	.....
Bank loans, secured (Note 5)		268,020		40,108
Accounts payable—				
Trade		147,974		144,967
Other		25,953		24,839
Income taxes payable		68,074		24,975
Sales taxes payable		12,860		7,457
		<u>579,249</u>		<u>242,346</u>
MORTGAGE PAYABLE:				
Repayable in monthly instalments of \$143 including taxes, ground rent and interest at 6¾%		14,402		14,549
DEFERRED INCOME TAXES (Note 6)		111,400		133,200
SHAREHOLDERS' OWNERSHIP:				
Share capital—				
Authorized—				
15,000 6% cumulative redeemable preference shares of a par value of \$100 each				
4,000,000 common shares of a par value of 50c each				
Issued—(Note 7)				
8,334 preference shares		833,400		833,400
Less—shares held by subsidiary company		(833,400)		(833,400)
2,605,700 common shares		1,302,850		1,302,850
Retained earnings, per statement attached		654,711		596,943
		<u>1,957,561</u>		<u>1,899,793</u>
APPROVED ON BEHALF OF THE BOARD:				
W. L. FALCONER, Director				
D. A. McFEE, Director				
		<u>\$2,662,612</u>		<u>\$2,289,888</u>

In our opinion these consolidated financial statements present fairly the financial position of the companies as at December 31, 1968, and the results of their operations and the source and application of their funds for the year then ended, in accordance with generally accepted accounting principles applied on a basis consistent with that of the preceding year.

Calgary, Alberta,
March 21, 1969

PRICE WATERHOUSE & CO.
Chartered Accountants.

PONDER OILS LTD.

AND WHOLLY-OWNED SUBSIDIARIES

Notes to Financial Statements

FOR THE YEAR ENDED DECEMBER 31, 1968

1. ACCOUNTING PRINCIPLES:

The consolidated financial statements include the accounts of Ponder Oils Ltd. and its wholly-owned subsidiaries Universal Printers Ltd. and Discovery, Inc. Ponder Oils Ltd. and Discovery, Inc., companies engaged in oil exploration, capitalize the costs of productive oil and gas properties and write off dry hole costs and lease rental payments as incurred. The costs of producing properties are written off by depletion charges on the unit of production method. The costs of buildings, plant and equipment, including equipment on producing wells, are depreciated over their useful lives.

2. EXPROPRIATION OF PROPERTY:

During 1966 certain lands and buildings, owned by a subsidiary company, were expropriated by the Province of Manitoba. Final negotiations were completed in 1968 and the company received an additional amount of \$29,752 which has been recorded as a prior period adjustment.

3. RENT PAID IN ADVANCE:

A subsidiary company leases premises under a long-term lease which expires in 1986 and requires rental payments of \$33,900 in 1969. As a result of capital expenditures made by the company on behalf of the lessor, a portion of the rent has been prepaid for the years 1969 to 1971. Under the terms of the lease, the Company has the option to purchase, on October 1, 1971, the land and buildings for \$240,000.

4. MINING EXPLORATION IN PROGRESS:

The majority of the charges to this account represent option payments, prospecting and exploration expenditures incurred in the Skeena Mining Division in British Columbia on four mineral claims owned by the Company and the thirty-six mineral claims under option to the Company. The assessment work on all claims has been carried out and recorded through 1972. In order to maintain the options, the Company is required to make annual payments which will not exceed \$13,000. The options can be exercised at any time up to 1980 and all option payments can be applied against the ultimate price.

5. BANK LOANS, SECURED:

The bank loan of the Company is secured by a general assignment of book debts and as additional security, the Company has pledged with the bank the shares of a subsidiary company and has hypothecated with the bank a \$450,000 floating charge debenture.

6. INCOME TAXES:

The Company and its subsidiary Universal Printers Ltd. follow income tax allocation accounting whereby the income tax provision is based on reported income and the difference between the provision and the income taxes currently payable is deferred to future periods. A subsidiary, Discovery, Inc., engaged in the exploration and production of oil and gas in the United States does not follow income tax allocation accounting with respect to expenditures on account of oil and gas exploration, in accordance with the accounting practice acceptable in that country. The estimated amount of deferred taxes payable by the company at December 31, 1968, is not considered material to the consolidated account and has not been recorded in the accounts.

At December 31, 1968, Ponder Oils Ltd. has unclaimed drilling and exploration costs of \$153,000, for income tax purposes, which amounts may be carried forward and deducted from income from oil and gas properties in future years. (1968 — oil income amounted to \$2,700).

7. SHARE OPTIONS:

Options are outstanding whereby certain officers and employees of the Company or its subsidiaries may purchase shares as follows:

175,000 shares at a price of 50c per share on or before March 20, 1971.

24,000 shares at a price of 71.5c per share on or before October 2, 1971.

A further 66,000 shares are reserved for issuance under stock option plans which may be granted to employees.

8. DIRECTORS' REMUNERATION:

Remuneration paid by the Company and its subsidiaries to the Company's directors, including directors holding salaried employment as officers, totalled \$48,100 in 1968. Remuneration paid to other senior officers totalled \$49,000.

9. SUBSEQUENT EVENTS:

Subsequent to December 31, 1968, the Company entered into a partnership agreement to explore for minerals. The Company is committed to contribute up to \$50,000 in each of the years 1969, 1970 and 1971.

PONDER OILS LTD.
AND WHOLLY-OWNED SUBSIDIARIES

Consolidated Statement of Income and Retained Earnings

FOR THE YEAR ENDED DECEMBER 31, 1968
(with comparative figures for 1967)

	<u>1968</u>	<u>1967</u>
Gross sales	\$2,963,926	\$2,916,057
Costs and expenses:		
Cost of sales	2,148,921	2,120,761
Selling, general and administrative expenses	295,538	268,303
Interest on long term debt	2,040	7,599
Dry holes and abandoned leases	111,379	22,149
Depreciation	113,756	103,056
Depletion	30,478	14,250
	<u>2,702,112</u>	<u>2,536,118</u>
Profit from operations	261,814	379,939
Other income	6,521	4,837
Net income before extraordinary item	268,335	384,776
Extraordinary item:		
Net proceeds from insurance claim, less income tax thereon	9,404	.....
Net income before provision for income taxes	277,739	384,776
Provision for income taxes (Note 6)	171,552	190,678
Net income for year	106,187	194,098
Retained earnings, beginning of year	596,943	481,016
Adjustment of proceeds on expropriation of property (Note 2)	29,752	.....
	732,882	675,114
Deduct—Dividends paid	78,171	78,171
Retained earnings, end of year	<u>\$ 654,711</u>	<u>\$ 596,943</u>

PONDER OILS LTD.

AND WHOLLY-OWNED SUBSIDIARIES

Consolidated Statement of Source and Application of Funds

FOR THE YEAR ENDED DECEMBER 31, 1968
(with comparative figures for 1967)

	1968	1967
Source of funds:		
Funds provided by operations:		
Net income for year	\$106,187	\$194,098
Add—Charges not requiring funds:		
Depreciation, depletion and amortization	144,234	117,306
Increase in deferred income taxes .....	.....	20,200
Reduction in rent paid in advance	7,428	7,428
	<u>257,849</u>	<u>339,032</u>
 Mortgage payable .....	.....	14,549
Proceeds on land expropriation	29,752	.....
Decrease in special refundable tax	2,488	.....
	<u>290,089</u>	<u>353,581</u>
 Application of funds:		
Dividends paid	78,171	78,171
Purchases of property, plant and equipment	345,300	78,396
Mining exploration in progress	35,428	56,220
Decrease in long term debt	147	.....
Reduction in deferred income tax	21,800	.....
Deposits	5,550	.....
Payment of refundable tax .....	.....	720
	<u>486,396</u>	<u>213,507</u>
 Increase (decrease) in working capital	 (196,307)	 140,074
Working capital, beginning of year	<u>349,021</u>	<u>208,947</u>
 Working capital, end of year	<u>\$152,714</u>	<u>\$349,021</u>

BACK COVER

A diamond drill at work on the Upper
Illiance River, Skeena Mining Division,
British Columbia.

